Maverick County Hospital District

Independent Auditor’s Report and Financial Statements

August 31, 2019 and 2018

Maverick County Hospital District
August 31, 2019 and 2018

Contents

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Independent Auditor's Report

Board of Directors
Maverick County Hospital District
Eagle Pass, Texas

We have audited the accompanying financial statements of Maverick County Hospital District (District), as of and for the years ended August 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Dallas, Texas
February 26, 2020

Maverick County Hospital District

Management's Discussion and Analysis

Years Ended August 31, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of Maverick County Hospital District (District) provides an overview of the District's financial activities for the years ended August 31, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- Cash and investments decreased in 2019 by $1,850,444, or 11.3%, and decreased by $1,102,112, or 6.3% in 2018.
- The District's net position decreased in 2019 by $1,412,640, or 6.0%, and decreased in 2018 by $769,051, or 3.2%.
- The District reported an operating loss in 2019 of $5,359,016 and an operating loss in 2018 of $3,965,758. The operating loss increased in 2019 by $1,393,258 or 35.1%.
- Net nonoperating revenues increased by $749,669, or 23.5%, in 2019 compared to 2018 and increased by $1,238,072, or 63.2%, in 2018 compared to 2017.

Using This Annual Report

The District's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any District's finances is "Is the District as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. The District's total net position—the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The District's Net Position

A summary of the District's balance sheets are presenting in the following table:

Table 1: Assets and Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	2019	2018	2017
Assets			
Cash and cash equivalents	$ 2,400,668	$ 2,106,578	$ 4,428,079
Investments	12,081,864	14,226,398	13,007,009
Receivables and other assets, net	2,047,883	2,092,943	1,983,841
Capital assets, net	5,652,013	4,921,419	4,668,579
Net pension asset	390,779	874,007	619,526
Total assets	22,573,207	24,221,345	24,707,034
Deferred Outflows of Resources - Pensions	603,392	154,751	402,201
Total assets and deferred outflows of resources	$ 23,176,599	$ 24,376,096	$ 25,109,235
Liabilities and Long-term Debt	$ 873,762	$ 616,293	$ 616,716
Deferred Inflows of Resources - Pensions	86,045	130,371	94,036
Net Position			
Net investment in capital assets	5,612,570	4,821,955	4,584,804
Restricted for pension	390,779	874,007	619,526
Unrestricted	16,213,443	17,933,470	19,194,153
Total net position	22,216,792	23,629,432	24,398,483
Total liabilities, deferred inflows of resources and net position	$ 23,176,599	$ 24,376,096	$ 25,109,235

A significant change in the District's assets in 2019 as compared to 2018, is the decrease in cash and investments of $1,850,444, or 11.3%. The decrease is primarily a result of investments maturing during the year and being used for operating purposes and to fund capital improvements.

Operating Results and Changes in the District's Net Position

The following table presents a summary of the District's revenues and expenses for each of the years ended August 31, 2019, 2018 and 2017.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	$ 4,511,099	$ 2,866,358	2,967,569
Other	1,063,081	1,097,827	1,676,185
Total operating revenues	5,574,180	3,964,185	4,643,754
Operating Expenses			
Salaries and wages and employee benefits	7,192,211	4,920,964	4,058,523
Purchased services and professional fees	954,591	791,421	973,471
Depreciation and amortization	287,135	257,688	293,414
Supplies and other	2,499,259	1,959,870	1,529,969
Total operating expenses	10,933,196	7,929,943	6,855,377
Operating Loss	(5,359,016)	(3,965,758)	(2,211,623)
Nonoperating Revenues (Expenses)			
Property taxes	3,656,976	3,429,878	2,399,187
Investment return	531,940	10,603	211,472
Noncapital grants	760,218	688,667	668,962
Tobacco settlement	168,813	127,012	83,024
Indigent care and Medicaid waiver payments	(1,171,571)	(1,059,453)	(1,404,010)
Total nonoperating revenues, net	3,946,376	3,196,707	1,958,635
Decrease in Net Position	$ (1,412,640)	$ (769,051)	(252,988)

Operating Losses

The first component of the overall change in the District's net position is its operating income or loss—the difference between operating revenues and the expenses incurred to perform those services. In 2019, 2018 and 2017, the District reported operating losses. This is consistent with the District's recent operating history as the District was formed and is operated primarily to support health care for low income residents in Maverick County. The District levies property taxes to provide sufficient resources to support that mission.

The operating loss for 2019 increased by $1,393,258, or 35.1%, as compared to the operating loss in 2018. The primary component of the change in the operating loss in 2019 loss is the increase in operating revenues of $1,609,995, or 40.6%, which is primarily attributable to the District expanding service lines related to primary care services in December 2018 as well as hiring a cardiologist in September 2018. Another component of the increase in operating loss in 2019 is that operating expenses increased by $3,003,253 from 2018 to 2019, primarily as a result of increases in salaries, wages and employee benefits and supplies and other. The increases are attributable to the increase in service lines as previously noted.

The operating loss for 2018 increased by $1,754,135, or 79.3%, as compared to the operating loss in 2017.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, investment income, noncapital grants, and indigent care and Medicaid waiver related payments. Total nonoperating revenues and expenses increased by $749,669, or 23.5%, between 2019 and 2018. The increase was primarily due to an increase in property tax revenue of approximately $227,000 due to an increase in the tax rate property values. Investment return also increased by $521,337 as a result of market performance.

Total nonoperating revenues and expenses increased by $1,238,072, or 63.2%, between 2018 and 2017. The increase was primarily due to an increase in property tax revenue of approximately $1,031,000 due to an increase in the property values.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2019, 2018 and 2017 discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At August 31, 2019, the District had $5,652,013 invested in capital assets, net of accumulated depreciation. In 2019, the District added capital assets costing approximately $1,018,000.

At August 31, 2018, the District had $4,921,419 invested in capital assets, net of accumulated depreciation. In 2018, the District purchased new equipment costing approximately $511,000.

Debt

At August 31, 2019 and 2018, the District had $39,443 and $46,132, respectively, in capital lease obligations and notes payable outstanding.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Maverick County Hospital District at 3406 Bob Rogers Drive, Suite 230, Eagle Pass, TX 78852.

Maverick County Hospital District

Balance Sheets

August 31, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash and cash equivalents	$ 2,400,668	$ 2,106,578
Short-term investments	4,391,437	3,508,237
Patient accounts receivable, net of allowance; 2019—$1,160,000, 2018—$838,000	601,208	431,704
Property taxes receivable, net of allowance; 2019—$526,000 2018—$479,000	390,244	366,564
Other receivables, net of allowance; 2019—$532,000, 2018—$468,000	908,163	1,139,743
Prepaid expenses and other	109,268	154,932
Total current assets	8,800,988	7,707,758
Noncurrent Cash and Investments	7,690,427	10,718,161
Capital Assets, Net	5,652,013	4,921,419
Other Assets	39,000	-
Net Pension Asset	390,779	874,007
Total assets	22,573,207	24,221,345
Deferred Outflows of Resources - Pensions	603,392	154,751
Total assets and deferred outflows of resources	$ 23,176,599	$ 24,376,096

Liabilities, Deferred Inflows of Resources, and Net Position

		2019		2018
Current Liabilities				
Current maturities of long-term debt	$	18,442	$	24,067
Accounts payable		304,007		174,077
Accrued salaries, wages and compensated absences		530,312		396,084
Total current liabilities		852,761		594,228
Long-term debt		21,001		22,065
Total liabilities		873,762		616,293
Deferred Inflows of Resources - Pensions		86,045		130,371
Net Position				
Net investment in capital assets		5,612,570		4,821,955
Restricted for pension		390,779		874,007
Unrestricted		16,213,443		17,933,470
Total net position		22,216,792		23,629,432
Total liabilities, deferred inflows of resources, and net position	$	23,176,599	$	24,376,096

Maverick County Hospital District

Statements of Revenues, Expenses and Changes in Net Position

Years Ended August 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019—$117,000, 2018—$512,000	$ 4,511,099	$ 2,866,358
Other	1,063,081	1,097,827
Total operating revenues	5,574,180	3,964,185
Operating Expenses		
Salaries and wages	6,119,028	4,167,081
Employee benefits	1,073,183	753,883
Purchased services and professional fees	954,591	791,421
Supplies and other	2,405,756	1,874,888
Professional liability insurance expense	93,503	84,982
Depreciation and amortization	287,135	257,688
Total operating expenses	10,933,196	7,929,943
Operating Loss	(5,359,016)	(3,965,758)
Nonoperating Revenues		
Property taxes	3,656,976	3,429,878
Interest income	286,833	256,665
Change in unrealized gain (loss) in fair value of investments	245,107	(246,062)
Noncapital grants and gifts	760,218	688,667
Tobacco settlement	168,813	127,012
Total nonoperating revenues	5,117,947	4,256,160
Nonoperating Expenses		
Indigent care and Medicaid waiver payments	(1,171,571)	(1,059,453)
Total nonoperating expenses	(1,171,571)	(1,059,453)
Total nonoperating revenues, net	3,946,376	3,196,707
Decrease in Net Position	(1,412,640)	(769,051)
Net Position, Beginning of Year	23,629,432	24,398,483
Net Position, End of Year	$ 22,216,792	$ 23,629,432

Maverick County Hospital District

Statements of Cash Flows

Years Ended August 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients and program participants	$ 4,025,866	$ 2,732,607
Payments to suppliers	(3,224,924)	(2,897,540)
Payments to employees	(7,106,722)	(4,820,503)
Other receipts, net	1,319,651	1,047,267
Net cash used in operating activities	(4,986,129)	(3,938,169)
Noncapital Financing Activities		
Property taxes supporting operations	3,633,296	3,434,418
Proceeds received from tobacco settlement	168,813	127,012
Noncapital grants and gifts	782,526	613,220
Medicaid waiver program payments	(917,362)	(838,124)
Net cash provided by noncapital financing activities	3,667,273	3,336,526
Capital and Related Financing Activities		
Principal paid on long-term debt	(6,689)	(37,643)
Purchase of capital assets	(1,071,061)	(457,196)
Net cash used in capital and related financing activities	(1,077,750)	(494,839)
Investing Activities		
Investment income	546,162	(5,630)
Purchase of investments	(1,855,466)	(7,068,389)
Proceeds from sale of investments	4,000,000	5,849,000
Net cash provided by (used in) investing activities	2,690,696	(1,225,019)
Increase (Decrease) in Cash and Cash Equivalents	294,090	(2,321,501)
Cash and Cash Equivalents, Beginning of Year	2,106,578	4,428,079
Cash and Cash Equivalents, End of Year	$ 2,400,668	$ 2,106,578

Maverick County Hospital District

Statements of Cash Flows (Continued)

Years Ended August 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (5,359,016)	$ (3,965,758)
Depreciation and amortization	287,135	257,688
Provision for uncollectible accounts	117,114	512,199
Changes in operating assets and liabilities		
Patient accounts receivable and other, net	(345,777)	(696,510)
Accounts payable and accrued expenses	317,490	(16,112)
Net pension asset	483,228	(254,481)
Deferred outflows of resources - pensions	(448,641)	247,450
Deferred inflows of resources - pensions	(44,326)	36,335
Other assets and liabilities	6,664	(58,980)
Net cash used in operating activities	$ (4,986,129)	$ (3,938,169)
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	$ -	$ 53,332

Maverick County Hospital District

Notes to Financial Statements

August 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Maverick County Hospital District is a political subdivision of the state of Texas. The District is controlled by a five-member board of governors elected by the public. The purpose of the District is to provide medical services to residents of Maverick County through support of indigent care programs by area medical care providers and to provide educational services through direct community involvement. The District also recruits physicians of various specialties to Maverick County in an effort to expand the range of medical services in Maverick County.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, property taxes and investment income are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At August 31, 2019 and 2018, cash equivalents consisted of investments in public fund investment pools that included funds used for operations.

Property Taxes

The District received approximately 34% in 2019 and 42% in 2018 of its financial support from property taxes. These funds were used to support operations.

Property taxes are levied by the District on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year.

The District's property tax rate was $.1490 and $.1299 per $100 valuation for the years ending August 31, 2019 and 2018, respectively. Property tax revenue totaled $3,656,976 and $3,429,878 for 2019 and 2018, respectively.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice claims. Settled claims have not exceeded this commercial coverage in any of the three preceding periods.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

Land improvements	7-15 years
Buildings and improvements	25-40 years
Equipment	3-10 years

Defined Benefit Pension Plan

The District provides pension benefits to its employees through an agent multiple-employer defined benefit pension plan operated by the Texas County and District Retirement System (Plan). For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

The District reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position.

Deferred Inflows of Resources

The District reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits when earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expenses when the time off occurs and no liability is accrued for such benefits employees have earned, but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted for pension represents assets restricted for providing contributions to the agent multiple-employer defined benefit pension plan which provides pensions in accordance with the benefit terms of the plan. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

Net patient service revenue is derived from services of physicians employed by the District. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as adjustments become known. The District's physician group provided approximately $254,000 and $221,000 in indigent care to participants in the District's indigent care program in 2019 and 2018, respectively.

Net patient service revenue also includes revenue from the collection of coinsurance or cost-sharing payments from individuals who receive medical care under the District's indigent care program. These payments are based on a sliding scale of federal poverty guidelines.

Income Taxes

The District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Note 2: Indigent Care

As discussed in *Note 1*, the primary purpose of the District is to provide medical services to residents of Maverick County. This is done through support of indigent care programs at area medical providers. As part of its mission of providing indigent care to citizens of Maverick County, the District participates in the Medicaid Section 1115(a) Waiver program, a program designed to benefit hospitals that service low income and indigent patients. As part of the program, certain governmental entities, including hospital districts, advance funds which are matched with federal funding. Based on specific requirements, all funds are then disbursed to providers throughout Texas. In connection with this program, the District transferred funds in the amount of $917,362 and $838,124 for the years ended August 31, 2019 and 2018, respectively.

Note 3: Deposits and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments. At August 31, 2019 and 2018, the District's deposits were either insured or collateralized in accordance with state law.

Investments

The District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, and in bank repurchase agreements.

At August 31, 2019 and 2018, the District had the following investments and maturities:

	August 31, 2019		
		Maturities in Years	
Type	Fair Value	Less than 1	1-5
U.S. agencies obligations	$ 6,201,647	$ 997,485	$ 5,204,162
Municipal bonds	1,453,346	1,453,346	-
Mutual funds	510,313	510,313	-
Certificates of deposit	3,916,558	1,430,293	2,486,265
Texas Class Investment Pool	846,234	846,234	-
	$ 12,928,098	$ 5,237,671	$ 7,690,427

	August 31, 2018		
		Maturities in Years	
Type	Fair Value	Less than 1	1-5
U.S. agencies obligations	$ 6,915,714	$ 398,740	$ 6,516,974
Municipal bonds	2,691,032	1,242,250	1,448,782
Certificates of deposit	4,619,652	1,867,247	2,752,405
Texas Class Investment Pool	546,374	546,374	-
	$ 14,772,772	$ 4,054,611	$ 10,718,161

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy requires that total investments have a weighted-average maturity of five years or less. The District's investments in U.S. agency obligations include fixed-rate notes and bonds with a weighted average maturity of three years.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District's policy to limit its investments to U.S. Treasury and agency obligations or otherwise follow the restrictions of the *Texas Public Funds Investment Act*. The debt securities of the U.S. agencies are rated AA+ by Standard & Poor's rating agency. The District's investments in municipal bonds were rated AA or AAA by Standard & Poor's rating agency.

The District also utilizes a pooled investment concept for its funds to maximize its investment program by investing in TexCLASS, which is an investment pool authorized by the Texas Legislature. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. The pool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the pools shares.

The District also invests in certificates of deposit, which are classified as investments for financial reporting purposes. These certificates of deposit are fully collateralized by the various financial institutions.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the District's investments are held in safekeeping or trust accounts.

Concentration of Credit Risk – As a means of limiting the risk of loss resulting from over concentration of assets in any one issuer, it is the District's policy to diversify investment holdings to provide for stability of income and reasonable liquidity.

The following table reflects the District's investments in single issuers that represent more than 5% of total investments at August 31, 2019 and 2018.

	2019	2018
Federal Farm Credit Bank	21%	23%
Federal Home Loan Bank	20%	19%
Federal National Mortgage Association	8%	7%
Florida State Board of Administration Finance Corporation	0%	5%
Harris County Texas	6%	5%
Capital One Bank	6%	0%
Morgan Stanley Bank	6%	0%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2019	2018
Carrying value		
Deposits	$ 1,554,434	$ 1,560,204
Investments	12,928,098	14,772,772
	$ 14,482,532	$ 16,332,976
Included in the following balance sheet captions		
Cash and cash equivalents	$ 2,400,668	$ 2,106,578
Short-term investments	4,391,437	3,508,237
Noncurrent cash and investments	7,690,427	10,718,161
	$ 14,482,532	$ 16,332,976

Maverick County Hospital District

Notes to Financial Statements

August 31, 2019 and 2018

Note 4: Capital Assets

Capital assets activity for the years ended August 31, was:

2019

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	$ 351,187	$ 585,167	$ -	$ -	$ 936,354
Buildings and improvements	7,168,965	38,445	-	399,824	7,607,234
Equipment	1,725,047	394,117	-	-	2,119,164
Construction in progress	399,824	-	-	(399,824)	-
	9,645,023	1,017,729	-	-	10,662,752
Less accumulated depreciation:					
Land improvements	78,306	29,873	-	-	108,179
Buildings and improvements	3,186,201	141,760	-	-	3,327,961
Equipment	1,459,097	115,502	-	-	1,574,599
	4,723,604	287,135	-	-	5,010,739
Capital assets, net	$ 4,921,419	$ 730,594	$ -	$ -	$ 5,652,013

2018

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	$ 275,428	$ 75,759	$ -	$ -	$ 351,187
Buildings and improvements	7,168,965	-	-	-	7,168,965
Equipment	1,690,102	34,945	-	-	1,725,047
Construction in progress	-	399,824	-	-	399,824
	9,134,495	510,528	-	-	9,645,023
Less accumulated depreciation:					
Land improvements	58,845	19,461	-	-	78,306
Buildings and improvements	3,045,773	140,428	-	-	3,186,201
Equipment	1,361,298	97,799	-	-	1,459,097
	4,465,916	257,688	-	-	4,723,604
Capital assets, net	$ 4,668,579	$ 252,840	$ -	$ -	$ 4,921,419

Note 5: Risk Management

General Liability Risks

The District participates in the Texas Municipal League Intergovernmental Risk Pool (Pool), currently operating as a common risk management and insurance program for its members. The District pays an annual premium to the Pool for its general liability torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums.

Medical Malpractice Risks

The District is a unit of government covered by the Texas Tort Claims Acts (TTCA) which, by statute, limits its malpractice liability to $100,000 per person and $300,000 per occurrence. The District was self-insured for medical malpractice risks until June 30, 2011, at which time, the District was insured by a third party, up to the limits established by the TTCA. To cover such risks, the District purchases medical malpractice insurance under an occurrence-basis policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Litigation

The District is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by the District's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets, change in net position and cash flows of the District. Events could occur that would change this estimate materially in the near term.

Note 6: Operating Leases

The District leases office space in its medical office building to unrelated parties. All of the District's existing leases are cancellable with 30 days prior written notice. Rental income was approximately $228,000 and $325,000 for 2019 and 2018, respectively, and is recognized as a component of other operating revenue in the statements of revenues, expenses and changes in net position.

Note 7: Pension Plans

Defined Contribution Plan Description

The District offers a defined contribution plan covering substantially all employees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. Contributions made by plan members were approximately $51,000 and $59,000 during 2019 and 2018, respectively. The District does not make contributions to the plan. Employees are immediately vested in their own contributions and earnings on those contributions.

Defined Benefit Plan Description

The District contributes to the Texas County and District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan covering substantially all employees. The Plan is administered by a board of trustees appointed by TCDRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body within the options available in the state statutes governing TCDRS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or from the website www.tcdrs.org.

Benefits Provided

The Plan provides retirement, disability and survivor benefits to plan members and their beneficiaries. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the commitment of the District to contribute to the plan. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS.

Members can retire at ages 60 and above with eight or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after eight years but must leave his accumulated contributions in the Plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump sum, he is not entitled to any amounts contributed by the employer.

The Plan has been adopted in lieu of the normal requirement that employers contribute to the social security program (other than for the Medicare portion).

The employees covered by the Plan at December 31 (measurement date) are:

	2019	2018
Inactive employees or beneficiaries currently receiving benefits	5	4
Inactive employees entitled to but not yet receiving benefits	48	42
Active employees	81	57
	134	103

Contributions

The District's governing body has the authority to establish and amend the contribution requirements of the District and active employees.

The District establishes rates based on the annually determined rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Plan members are required to contribute 6% of their annually covered salary. Under the TCDRS Act, rates are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended August 31, 2019, employees contributed $291,581, or 5.0% of annual pay and the District contributed $259,017, or 4.9% of annual pay. For the year ended August 31, 2018, employees contributed $197,159, or 4.9% of annual pay, and the District contributed $166,164, or 4.1% of annual pay, to the Plan.

Net Pension Asset

The District's net pension asset as of August 31, 2019 and 2018, was measured as of December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension asset was determined by actuarial valuations as of these dates.

The total pension liability in the August 31, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.9% average over career, including inflation
Ad hoc cost of living adjustments	Not included
Investment rate of return	8.0%, net of pension plan administrative expenses

Mortality rates for depositing members were based on the RP-2014 Active Employee Mortality Table with a 110% for females and 130% for males, both projected with 110% of the MP-2014 Ultimate scale after that.

The actuarial assumptions used in the December 31, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of geometric rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equities		
U.S. Equities	10.5%	5.4%
International Equities — Developed	10.0%	5.4%
International Equities — Emerging	7.0%	5.9%
Global Equities	2.5%	5.7%
Hedge Funds	13.0%	3.9%
High-Yield Investments		
Strategic Credit	12.0%	4.4%
Distressed Debt	2.0%	7.2%
Direct Lending	11.0%	8.0%
Private Equity	18.0%	8.4%
Real Assets		
REITs	2.0%	4.2%
Private Real Estate Partnerships	6.0%	6.3%
Master Limited Partnerships	3.0%	5.4%
Investment-Grade Bonds	3.0%	1.6%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 8.1% at December 31, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, plan fiduciary net position and the net pension asset for the years end August 31, are:

	2019		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	$ 3,786,849	$ 4,660,856	$ (874,007)
Changes for the year:			
Service cost	404,707	-	404,707
Interest on total pension liability	336,832	-	336,832
Effect of economic/demographic gains or losses	84,142	-	84,142
Effect of assumptions, changes or inputs	-	-	-
Refund of contributions	(22,659)	(22,659)	-
Benefit payments	(44,918)	(44,918)	-
Administrative expenses	-	(3,964)	3,964
Member contributions	-	223,549	(223,549)
Net investment loss	-	(82,912)	82,912
Employer contributions	-	194,861	(194,861)
Other changes	-	10,919	(10,919)
Net changes	758,104	274,876	483,228
Balances at end of year	$ 4,544,953	$ 4,935,732	$ (390,779)

	2018		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	$ 3,240,965	$ 3,860,491	$ (619,526)
Changes for the year:			
Service cost	388,012	-	388,012
Interest on total pension liability	290,693	-	290,693
Effect of economic/demographic gains or losses	(57,868)	-	(57,868)
Effect of assumptions, changes or inputs	6,993	-	6,993
Refund of contributions	(49,990)	(49,990)	-
Benefit payments	(31,956)	(31,956)	-
Administrative expenses	-	(3,100)	3,100
Member contributions	-	180,555	(180,555)
Net investment income	-	567,247	(567,247)
Employer contributions	-	134,514	(134,514)
Other changes	-	3,095	(3,095)
Net changes	545,884	800,365	(254,481)
Balances at end of year	$ 3,786,849	$ 4,660,856	$ (874,007)

The District's net pension asset has been calculated using a discount rate of 8.1%. The following table presents the net pension liability (asset) using a discount rate 1% higher and 1% lower than the current rate for August 31:

	2019		
	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
District's net pension liability (asset)	$ 306,492	$ (390,779)	$ (966,307)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended August 31, 2019 and 2018, the District recognized pension expense of approximately $246,000 and $196,000, respectively. At August 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 72,122	$ 86,045
Changes of assumptions	15,492	-
Net difference between projected and actual earnings on plan investments	322,068	-
Contributions subsequent to the measurement date	193,710	-
	$ 603,392	$ 86,045

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 118,974
Changes of assumptions	22,072	-
Net difference between projected and actual earnings on plan investments	-	11,397
Contributions subsequent to the measurement date	132,679	-
	$ 154,751	$ 130,371

At August 31, 2019 and 2018, the District reported $193,710 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that will be recognized as an increase of the net pension asset at August 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources at August 31, 2019, related to pensions will be recognized in pension expense as follows:

Year ending August 31:	
2020	$ 115,416
2021	37,192
2022	48,517
2023	98,470
2024	12,020
Thereafter	12,022
	$ 323,637

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued financial report of TCDRS for the year ended December 31, 2018.

Note 8: Disclosure About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2019 and 2018:

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2019				
Investments by fair value level				
U.S. agency obligations	$ 6,201,647	$ -	$ 6,201,647	$ -
Mutual funds	510,313	510,313	-	-
Municipal bonds	1,453,346	-	1,453,346	-
Total investments by fair value level	8,165,306	$ 510,313	$ 7,654,993	$ -
Investments measured at net asset value				
Texas Class Investment Pool	846,234			
Certificates of deposit	3,916,558			
Total investments	$ 12,928,098			

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2018				
Investments by fair value level				
U.S. agency obligations	$ 6,915,714	$ -	$ 6,915,714	$ -
Municipal bonds	2,691,032	-	2,691,032	-
Total investments by fair value level	9,606,746	$ -	$ 9,606,746	$ -
Investments measured at net asset value				
Texas Class Investment Pool	546,374			
Certificates of deposit	4,619,652			
Total investments	$ 14,772,772			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At August 31, 2019 and 2018, no investments were held by the District meeting the Level 3 hierarchy classification.

Investment in State Investment Pool – During 2019 and 2018, the District invested in Texas CLASS, a public fund investment pool. Investments in the pool are not categorized in accordance with GASB Statement No. 3 disclosure requirements since the District has not been issued certificates, but rather it owns an individual beneficial interest in the net position of the related investment pool. The fair value of the position of the pool is measured at net asset value and is designed to approximate the share value. The pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds.

Required Supplementary Information

Maverick County Hospital District

Schedule of Changes in the District's Net Pension Asset and Related Ratios

As of December 31,

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$ 404,707	$ 388,012	$ 287,349	$ 307,603	$ 332,561
Interest on total pension liability	336,832	290,693	238,238	216,704	182,393
Effect of plan changes	-	-	-	(49,031)	-
Effect of assumption changes or inputs	-	6,993	-	32,490	-
Effect of economic and demographic gains	84,142	(57,868)	(5,377)	(128,830)	(6,419)
Benefit payments, including refunds of employee contributions	(67,577)	(81,946)	(156,114)	(68,123)	(61,222)
Net change in total pension liability	758,104	545,884	364,096	310,813	447,313
Total pension liability—beginning	3,786,849	3,240,965	2,876,869	2,566,056	2,118,743
Total pension liability—ending (a)	$ 4,544,953	$ 3,786,849	$ 3,240,965	$ 2,876,869	$ 2,566,056
Plan fiduciary net position					
Contributions—employer	$ 194,861	$ 134,514	$ 118,580	$ 111,235	$ 88,493
Contributions—employee	223,549	180,555	152,340	131,899	134,761
Net investment income net of investment expenses	(82,912)	567,247	257,852	(106,675)	197,186
Benefit payments, including refunds of employee contributions	(67,577)	(81,946)	(156,114)	(68,123)	(61,222)
Administrative expense	(3,964)	(3,100)	(2,803)	(2,482)	(2,482)
Other	10,919	3,095	26,523	3,644	11,935
Net change in plan fiduciary net position	274,876	800,365	396,378	69,498	368,671
Plan fiduciary net position—beginning	4,660,856	3,860,491	3,464,113	3,394,615	3,025,944
Plan fiduciary net position—ending (b)	$ 4,935,732	$ 4,660,856	$ 3,860,491	$ 3,464,113	$ 3,394,615
District's net pension asset—ending (a) – (b)	$ (390,779)	$ (874,007)	$ (619,526)	$ (587,244)	$ (828,559)
Plan fiduciary net position as a percentage of the total pension asset	108.60%	123.08%	119.12%	120.41%	132.29%
Covered-employee payroll	$ 3,725,823	$ 3,009,257	$ 2,536,740	$ 2,198,316	$ 2,246,025
District's net pension asset as a percentage of covered-employee payroll	-10.49%	-29.04%	-24.42%	-26.71%	-36.89%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Information presented in this schedule has been determined as of the measurement date (December 31) of the net pension asset in accordance with GASB 68.

Maverick County Hospital District
Schedule of District Contributions
Year Ending August 31,

Year Ending August 31,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered-employee payroll *(1)*	Contributions as a percentage of covered-employee payroll
2019	$ 259,017	$ 259,017	$ -	$ 5,800,713	4.5%
2018	$ 166,164	$ 166,164	$ -	$ 4,013,512	4.1%
2017	$ 136,249	$ 136,249	$ -	$ 3,253,760	4.2%
2016	$ 104,205	$ 104,205	$ -	$ 2,571,786	4.1%
2015	$ 105,356	$ 105,356	$ -	$ 2,465,973	4.3%

Notes to Schedule:

(1) Payroll is calculated based on contributions as reported to TCDRS

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization method	Closed
Remaining amortization period	0.0 years
Asset valuation method	5-year smoothed non-asymptotic market
Inflation	2.75%
Salary increases	4.9% average over career, including inflation
Investment rate of return	8.0%, net of pension plan investment expense, including inflation
Retirement age	61 (average)
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Information presented in this schedule has been determined as of the District's fiscal year end (August 31) in accordance with GASB 68.

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Board of Directors and Management
Maverick County Hospital District
Eagle Pass, Texas

As part of our audit of the financial statements of Maverick County Hospital District as of and for the year ended August 31, 2019, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The District's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Valuation of patient accounts receivable
- Value of property taxes receivable and tax revenue
- Net pension asset

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Indigent care
- Defined benefit pension plan

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Property taxes receivable, net
- Investments and investment return
- Accounts payable
- Other receivables

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (*attached*)
- We observed matters that we consider to be deficiencies that we communicated to management orally.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the District as of and for the year ended August 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be a significant deficiency.

Audit Adjustments

During the course of the audit, various adjustments were proposed and recorded. Areas where adjustments were proposed have been previously discussed in this letter. Management should review the causes for these adjustments and implement corrective procedures to ensure that interim financial statements are accurate. Such corrective procedures would include challenging the property tax receivable estimate by performing validation procedures such as look-back analyses as well as strengthening cut-off procedures related to accounts payable accruals. Additionally, the market value per the investment statements should be reconciled to the general ledger on a monthly basis and at year end. This is especially important because interim financial information is often a key factor in decisions made by management and the board.

OTHER MATTERS

Future Change in Accounting Standard – GASB 84

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB 84 is effective for the District’s fiscal year ending August 31, 2020.

Future Change in Accounting Standard – GASB 87

GASB Statement No. 87, *Leases* (GASB 87), provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for financial statements for the District's fiscal year ending August 31, 2021. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

Future Change in Accounting Standard – GASB 89

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB 89), removes the concept of capitalized interest from all types of governmental entities. GASB 89 is effective for the District's fiscal year ending September 30, 2021 and will be adopted prospectively. Earlier application is encouraged.

This communication is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 26, 2020

MCHD
Maverick County Hospital District

February 26, 2020

BKD, LLP
Certified Public Accountants
14241 Dallas Parkway, Suite 1100
Dallas, Texas 75257-961

We are providing this letter in connection with your audits of our financial statements of Maverick County Hospital District (District) as of and for the years ended August 31, 2019 and 2018. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 31, 2019 for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of directors' meetings held through the date of this letter.

   (e) All significant contracts and grants.

   (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by company procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets or liabilities.

8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

9. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

   (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, customers, regulators, suppliers or others.

11. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the District may deal if the District can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the District.

12. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial records.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the District is contingently liable.

13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

14. We have no reason to believe the District owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

15. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

16. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the District's participation in the Medicare or other governmental health care programs.

17. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables.

    (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.

18. Except as disclosed in the financial statements, the District has:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.

19. With respect to the District's possible exposure to past or future medical malpractice assertions:

    (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.

    (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.

    (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.

    (d) Management does not expect any claims to exceed malpractice insurance limits.

    (e) We believe our accruals for malpractice claims are sufficient for all known and probable potential claims.

20. With regard to deposit and investment activities:

    (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.

    (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

    (c) We understand that your audit does not represent an opinion regarding the enforceability of collateral pledges.

21. With respect to any nonattest services you have provided us during the year, including drafting the financial statements and related notes:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

22. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis and pension information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

23. We believe the assumptions used by our actuaries for valuing our obligations under our defined benefit pension plan are reasonable and result in an accurate portrayal of our unfunded benefit obligations. We are not aware of any items that would materially change the actuarial assumptions of computed obligations.

24. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

25. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

26. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

27. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

28. With regard to cost reports filed with Medicare, Medicaid or other third parties:

    (a) All required reports have been properly filed.

    (b) Management is responsible for the accuracy and propriety of those reports.

    (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.

    (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

    (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

    (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.

29. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.

30. Our federal awards did not exceed $750,000 in 2019 and we do not believe we are subject to the audit requirement to OMB Circular A-133 in 2019.

31. The District intends to hold all investments until maturity. Accordingly, investments maturing prior to August 31, 2020 are appropriately classified as "current" and investments maturing subsequent to August 31, 2020 are appropriately classified as "long-term" in the financial statements.

Alma Martinez, Administrator

Nestor Bonilla, CFO

Maverick County Hospital District

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	8,800,988	(13,461)	8,787,527	-0.15%
Non-Current Assets	14,375,611	0	14,375,611	0.00%
Current Liabilities	(852,761)	0	(852,761)	0.00%
Non-Current Liabilities	(107,046)	0	(107,046)	0.00%
Current Ratio	10.32		10.31	-0.16%
Total Assets	23,176,599	(13,461)	23,163,138	-0.06%
Total Liabilities	(959,807)	0	(959,807)	0.00%
Net Position	(22,216,792)	13,461	(22,203,331)	-0.06%
Revenues & Income	(10,692,127)	13,461	(10,678,666)	-0.13%
Costs & Expenses	12,104,767	(33,064)	12,071,703	-0.27%
Change in Net Position	1,412,640	(19,603)	1,393,037	-1.39%

Client: Maverick County Hospital District

Period Ending: August 31, 2019

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Location or Business Unit	Financial Line Item	Factual (F), Judgmental (J), or Projected (P)	Assets: Current DR (CR)	Assets: Non-Current DR (CR)	Liabilities: Current DR (CR)	Liabilities: Non-Current DR (CR)	(X) Non Tax	Revenues & Income DR (CR)	Costs & Expenses DR (CR)	Net Position DR (CR)	Net Effect on Following Year: Change in Net DR (CR)	Net Effect on Following Year: Net Assets DR (CR)
Turnaround effect of prior year passed adjustment due to understatement of payroll/PTO liability accrual	MCHD		F	0	0	0	0		0	(33,064)	33,064	0	0
		Salaries and Wages								(33,064)		N/A	N/A
		Net Position									33,064	N/A	N/A
To increase Net Accounts Receivable to be in line with BKD's point estimate.	MCHD		J	22,361	0	0	0		(22,361)	0	0	0	0
		Accounts Receivable, Net		22,361								None - Judgmental	
		Net Patient Service Revenue							(22,361)				
To decrease the Ryan White grant receivable to be in line with payments received subsequent to year end.	MCHD		F	(35,822)	0	0	0		35,822	0	0	(35,822)	35,822
		Other Revenue							35,822			(35,822)	35,822
		Other Receivables, Net		(35,822)									
		Taxable passed adjustments							13,461	(33,064)	33,064	(35,822)	35,822
		Times (1 - effective tax rate of 00%)							100%	100%	100%		
		Taxable passed adjustments net of tax impact				0			13,461	(33,064)	33,064		
		Nontaxable passed adjustments		(13,461)	0	0	0		0	0	0		
		Total passed adjustments, net of tax impact (if an		(13,461)	0	0	0		13,461	(33,064)	33,064		

Impact on Change in Net Posit	**(19,603)**
Impact on Net Position	**13,461**